

Office of Inspector General

September 17, 1999

Ms. Sheryl C. Stanley, P.C.
Certified Public Accountant
7595 Cambridge Street
Houston, TX 77054

Re: Final Report on Quality Control Review of Sheryl C. Stanley, P.C., Audit of the
National Aeronautics and Space Administration Johnson Space Center Exchange
Financial Statements for Fiscal Year Ended September 30, 1998
Assignment Number A9906100
Report Number IG-99-041

Dear Ms. Stanley:

The subject final report is provided for your use. Please refer to the Results in Brief for the overall review results.

If you have questions concerning the report, please contact Mr. Patrick A. Iler, Director, Audit Quality, at (216) 433-5408, or Ms. Van Tran, Financial Statement Audit Manager, at (202) 358-0466. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix B.

Sincerely,

[original signed by]

Russell A. Rau
Assistant Inspector General for Auditing

Enclosure

cc:

B/Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

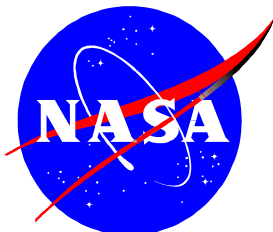
JM/Management Assessment Division

IG-99-041

**QUALITY
CONTROL
REVIEW
REPORT**

**SHERYL C. STANLEY, P.C., AUDIT
OF NATIONAL AERONAUTICS AND
SPACE ADMINISTRATION
JOHNSON SPACE CENTER
EXCHANGE FINANCIAL
STATEMENTS FOR FISCAL YEAR
ENDED SEPTEMBER 30, 1998**

September 17, 1999



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

AICPA	American Institute of Certified Public Accountants
FY	Fiscal Year
GAS	Government Auditing Standards
GAAS	Generally Accepted Auditing Standards

NASA Office of Inspector General

**IG-99-041
A9906100**

September 17, 1999

Sheryl C. Stanley, P.C., Audit of National Aeronautics and Space Administration Johnson Space Center Exchange Financial Statements for Fiscal Year Ended September 30, 1998

Introduction

The NASA Office of Inspector General performed a quality control review of the Sheryl C. Stanley, P.C., audit of the Johnson Space Center Exchange (Johnson Exchange) fiscal year (FY) 1998 Financial Statements. Sheryl C. Stanley, P.C., is a public accounting firm licensed to operate in the state of Texas and was retained by the Johnson Exchange for the annual financial statement audits. The Johnson Exchange is a government instrumentality, operating under NASA's control. It operates and generates revenues from the employee cafeterias, gift shops, recreation center, and vending concessions. For the year ended September 30, 1998, the Johnson Exchange reported a cash balance of \$2,386,600¹ and a net income of \$387,173.

The Inspector General Act of 1978, as amended, mandates Inspectors General to ensure that work performed by non-Federal auditors complies with government auditing standards (GAS) issued by the Comptroller General of the United States. The GAS incorporate, by reference, the American Institute of Certified Public Accountants (AICPA) standards of field work and reporting.² Compliance with GAS provides reasonable assurance that:

- Financial statements present fairly the financial condition and results of operations of the Exchange in accordance with established accounting principles.
- Internal controls are in place and operating as intended.
- The Exchange is complying with applicable laws and regulations.

The review objective was to determine whether the independent external auditor performed the audit in accordance with GAS and whether the Johnson Exchange has taken corrective actions on recommendations resulting from the audit. Appendix A contains additional details on our objectives, scope, and methodology.

Results in Brief

The auditor, Sheryl C. Stanley, P.C., conducted the audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA. As a result, the auditor opined on the

¹ Cash balance also includes money market savings accounts and marketable securities.

² GAS prescribe minimum hours of continuing education requirements and additional standards for field work and reporting.

fair presentation of the financial statements only.³ In addition, the auditor issued a management letter to the Exchange Council that contains recommendations for improvement. The Johnson Exchange has resolved all the recommendations and implemented corrective actions where required.

Background

The NASA Policy Directive 9050.6E, “NASA Exchange Activities,” dated December 2, 1997, authorizes Center Directors to establish an Exchange to contribute to the efficiency, welfare, and morale of NASA personnel. Center Directors are required to appoint an Exchange Council to oversee the exchange operations. The Council must consist of at least five Center employees who perform their duties without pay from the Exchange. Exchange-operated activities are generally self-sustained (that is, supported by nonappropriated funds). The Directive also requires annual audits of the Centers’ Exchange financial statements and the submission of the statements and the audit reports to the Center Chief Financial Officer by December 31.

Auditors engaged to conduct the financial audits of the Exchanges have generally followed the GAAS. However, the Inspector General, together with officials from the Offices of the Chief Financial Officer and Management Systems, determined that the audits should be conducted in accordance with GAS because the Exchanges are government instrumentalities. The Inspector General issued a policy memorandum on March 1, 1999, to all the Exchanges regarding the shift to GAS, which auditors must follow beginning with the FY 1999 financial statement audits.⁴

Independent Auditor’s Report

In its December 29, 1998, report, the Sheryl C. Stanley, P.C., firm rendered an unqualified opinion⁵ on the FY 1998 Statements of Financial Position, Activities, and Cash Flows for the Johnson Exchange. In a separate management letter to the Exchange Council, the auditor recommended the following improvements:

- enhancing inventory counting procedures to ensure accuracy,
- reconciling the general ledger and detailed worksheet for Exchange employees’ accrued leave at least annually,
- keeping bank account balances within the Federal Deposit Insurance Corporation \$100,000 insured threshold, and
- enforcing the approval and signature policy for checks payable for more than \$5,000.

The auditor’s work met applicable requirements contained in GAAS.

³ GAAS do not require an opinion on internal controls and compliance with laws and regulations as part of the financial statement audit.

⁴ As required by the March 1, 1999, policy memorandum, the Johnson Exchange will obtain the FY 1999 audit in accordance with GAS. The Exchange did not retain Sheryl C. Stanley, P.C., to perform the FY 1998 audit in accordance with GAS.

⁵ An unqualified opinion means that the financial statements are presented fairly, in all material respects.

Exchange Council Corrective Actions

In response to the auditor's recommendations, the Johnson Exchange Council has initiated plans and/or taken corrective actions to (1) improve accuracy in the year-end inventory at the cafeterias and gift shops, (2) perform a quarterly reconciliation of the general ledger to the detailed worksheet for Exchange employees' accrued leave, and (3) improve procedures for approving and signing checks. For account balances that exceed the Federal Deposit Insurance Corporation \$100,000 insured threshold, the Council accepted the risk for a better return on the investment. We consider the Council's actions responsive.

Appendix A. Objectives, Scope, and Methodology

Objectives

The quality control review objective was to determine whether the audit work for the Johnson Exchange was performed in accordance with government auditing standards. We also determined whether the Johnson Exchange has taken corrective actions in response to recommendations resulting from the audit.

Scope and Methodology

In performing the quality control review, we used an internal work program that incorporates the auditing standards issued by the AICPA. Based on those standards, we developed and organized the work program according to the general, field work, and reporting standards for financial audits. Our review focused on the auditor's qualifications, independence, peer review report, audit programs for appropriate procedures, and working paper documentation to include the results of the control risk assessment,⁶ fraud risk assessment,⁷ and controls testing. We also reviewed plans and actions taken by the Johnson Exchange to implement the auditor's recommendations.

We performed the quality control review in July 1999.

⁶ According to AICPA Codification of Statements on Auditing Standards, Section 319, "Consideration of Internal Control in a Financial Statement," auditors are required to document the basis for concluding that control risk is below the maximum level.

⁷ AICPA Codification of Statements on Auditing Standards, Section 316, "Fraud in a Financial Statement Audit," states that auditors are required to specifically assess the risk of material misstatement of the financial statements due to fraud and to document in the working papers evidence of its assessment.

Appendix B. Report Distribution

Independent Audit Firm

Ms. Sheryl C. Stanley, P.C.
Certified Public Accountant
7595 Cambridge Street
Houston, TX 77054

National Aeronautics and Space Administration (NASA) Headquarters

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Code B/Comptroller
Code BF/Director, Financial Management Division
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Code JL, Director, Contractor Industrial Relations
Code JM/Director, Management Assessment Division

NASA Center

Chairman, Exchange Council, Johnson Space Center
Chief Counsel, John F. Kennedy Space Center

Major Contributors to This Report

Patrick A. Iler, Director, Audit Quality

Van Tran, Financial Statement Audit Manager

Nancy C. Cipolla, Report Process Manager